

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THULAMELA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Thulamela Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment (PPE)

6. I was unable to obtain sufficient appropriate audit evidence that management has completely accounted for all municipal land within its jurisdiction for both the current and prior years due to inadequate record keeping. Consequently, I was unable to determine whether any adjustment to municipal land stated at R314 957 555 (2012: R314 957 555) in the financial statements was necessary.

7. The municipality did not recognise each significant part of its community assets in accordance with the Statement of Generally Recognised Accounting Practice, GRAP 17 *Property, plant and equipment*. An item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. I was unable to determine the correct net carrying amount of the community assets as it was impracticable to do so. Consequently, community assets, depreciation and accumulated depreciation are understated by an unknown amount. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.

Provision for doubtful debts

8. The municipality did not assess at the end of each period, whether there is any objective evidence of impairment, in terms of first assessing whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant in accordance with Standard of Generally Recognised Accounting Practice, GRAP 104, *Financial Instruments*. I was unable to confirm the correctness of the value of the provision for doubtful debts by alternative means. Consequently, I was unable to determine whether any adjustment relating to provision for doubtful debts amounting to R189 603 651 (2012: R163 628 106) in the financial statements and the consequential impact on accounts receivable, surplus for the period and accumulated surplus, was necessary.

Contingent liability

9. The municipality did not disclose a contingent liability in note 31 to the financial statements in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liability by alternate means. Consequently, I am unable to determine whether any adjustments to the contingent liability to the financial statements were necessary.

Opinion

10. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Thulamela municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matter

11. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

12. With reference to note 31 to the financial statements, the municipality is the defendant in various lawsuits and pending legal cases from individuals and companies. The municipality is opposing the claims amounting to R21 933 687. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

13. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

15. The supplementary information set out on pages X to X does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*. (FMPPI)
19. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
20. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

21. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 98% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of understanding on the requirement of the MSA.

Consistency

Reported targets not consistent with planned targets

22. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 46% of the objectives, 56% of the indicators and 88% of the reported targets are not consistent with the objectives, indicators and targets as per the approved integrated development plan. This was due to a lack of adequate performance reporting systems.

Measurability

Performance targets not specific

23. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 52% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles

Performance targets not measurable

24. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for a total of 55% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles

Performance Indicators not well defined

25. The National Treasury *FMPPi* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 60% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles.

Indicators not verifiable

26. The National Treasury *FMPPi* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 60% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Reliability of information

Reported information not reliable

27. The National Treasury *FMPPi* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

The reported performance information as a whole for housing and electricity and roads and storm water are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the targets relevant to the selected development priority.

This was due to the lack of standard operating procedures for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements

28. The National Treasury *FMPP* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

The information presented with respect to Waste management and Economic Development was not reliable when compared to the source information and/or evidence provided.

This was due to the lack of standard operating procedures for the accurate recording of actual achievements and monitoring of the completeness of source documentation in support of actual achievements

Compliance with laws and regulations

29. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

30. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
31. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the Municipal Systems Act and the Municipal planning and performance management regulations 1 and 9(1)(a).
32. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the Municipal Systems Act and the Municipal planning and performance management regulation 12(1) and 12(2)(e).
33. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
34. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46 (1)(c) of the Municipal Systems Act.
35. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.

Annual financial statements, performance and annual report

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, liabilities and expenditure identified by the auditors in the submitted financial statements were

subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion

Procurement and contract management

37. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
38. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
39. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
40. Awards were made to providers whose directors and/or principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Human resource management and compensation

41. Acting Senior Managers were appointed for a period of more than six months, in contravention of section 56(1) of the Municipal Systems Act.
42. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA sec 67(d).

Expenditure management

43. Reasonable steps were not taken to prevent irregular expenditure as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA

Revenue management

44. An adequate management, accounting and information system which accounts for debtors was not in place, as required by section 97(h) of the MFMA.
45. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of Municipal Finance Management Act.

Asset management

46. Capital assets were sold without the approval of the council, as required by section 14(2)(a) of the MFMA and Municipal asset transfer regulation (GNR878).
47. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.

Internal control

48. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

49. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall performance management reporting system.

Financial and performance management

50. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report
51. The annual performance report was not supported and evidenced by reliable information. This was mainly due to staff members not fully understanding the performance information requirements.
52. The financial statements are not adequately reviewed for accuracy and completeness by the accounting officer.

Governance

53. Those charged with governance (accounting officer, council and audit committee) did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

OTHER REPORTS

Investigations

54. An employee appointed as Chief Traffic Officer is alleged to have committed gross dishonesty, negligence, misrepresentation and prejudice whilst performing his duties. The matter is currently being investigated internally by the appointed committee.

Polokwane

10 December 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence